UNIT – I

1. **Income Tax**

In India, Income tax was introduced for the first time in 1860, by Sir James Wilson in order to meet the losses sustained by the Government on account of the Military Mutiny of 1857. In consultation with the Ministry of Law finally the Income Tax Act, 1961 was passed. The Income Tax Act 1961 has been brought into force with 1 April 1962. It applies to the whole of India including Jammu and Kashmir.

2. **Agricultural income**

Agriculture income is exempt under the Indian Income Tax Act. This means that income earned from agricultural operations is not taxed. The reason for exemption of agriculture income from Central Taxation is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Legislature. However while computing tax on non-agricultural income agricultural income is also taken into consideration.

3. **Who are person?**

The term person including the following:

1. An individual   2. A Hindu undivided family   3. A company

4.A firm   5. An association of person   6.Bodyof individuals

4. **Casual income?**

Any receipt which is of a casual and non-recurring nature is called casual income.

Casual incomes include winnings from lotteries, crossword puzzles, horse races, card games etc.

5. **Assessment Year: sec.2(9)?**

The period starting from April 1 and ending March 31 of the next year. Eg: Assessment year 2019-20 which commences on April 1,2019 and ends on March 31,2020. Income of previous year of an assessee is taxed during the assessment year at the rates prescribed by the relevant finance act for tax rates.

6. **Previous year: sec.3**

Income earned in a particular year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. (PY 2018-2019)

7. **Assessee : sec 2(7)**

Every person in respect of whom, any proceeding under the act has been taken for the assessment of his income or of the income of any other person in respect of which he is assessable or of the loss sustained by him or by such other person or the amount of refund due to him or to such other person may be called an assessee.

8. **Deemed assesse**

A person who is deemed to be an asasessee for some other person is called “deemed Assessee”.

9. **Assessee in Default**

When a person is responsible for doing any work under the income tax act and he fails to do it, he is called an “Assessee in default”.

10. **Income**

Income includes not only those things which the interpretation clause declares that it shall include, but all such things the word signifies according to its natural import.

11. What are the difference between capital receipt and revenue receipt?

a. Income received in lump sum e. Time of receipt g. Disallowance of receipt

b. Nature of receipt f. legal Obligation h. Attributes

c. Quantum of receipt i. Examples of Receipts

d. Accounting treatment in books of accounts

12. What are the difference between capital expenses and revenue expenses?

a)Types of Asset, b)type of liability, c)type of transaction, d)Nature of expenditure, e)Recurring or non recurring expenditure

13. What is capital and Revenue loss? Explain with examples?

a)Loss on sale assets, b)Embezzlement an pilferage by an employee, c)loss of agency due to liquidation of a company, d)loss of cash due to robbery, e)Loss due to fire of hired Machinery.

14. Explain the features of income?

1.Definite source 2. Legal or illegal income 3. Income may be received in cash 4. Dispute regarding the title 5. Income may be permanent or temporary 6. Gifts of personal nature 7. PIN money and 8. Award received by a sports person.

15. Residential status of an individual

Basic conditions

a) An individual is in India during the relevant previous year for a period amounting in all to 182days or more.

b) An individual is India for a period or periods amounting in all to 365 days or more during the four years preceding the relevant previous year and he is in India for a period of 60 days or more during previous year.

Additional conditions

i) He has been resident in India in at least Two out of the ten previous years preceding the relevant previous year,

ii) He has been India for at least 730 days in all during the seven previous years preceding the relevant previous year

Resident (ordinarily Resident)

An individual is said to be resident in India if he satisfies any one of the two basic conditions.

Resident but not ordinarily Resident

If an individual satisfies any one of the basic conditions and one or none of the two additional conditions, he is considered to be **Not ordinarily resident.**

Not Resident

If an individual does not satisfy any of the basic conditions (i) and (ii) mentioned above, he said to be Non-Resident. Additional conditions are irrelevant in relation to Non Residents.

16. Basis of charge of income tax?

Income from Salary, Income from House Property, Profits and gains of Business or Profession, Capital Gains and Income from Other sources.

17. What are the incomes are **E<u>XEMPTED FROM INCOME TAX</u>** act as per section 10.

1.Agricultural Income,

2. Sum received by a member from HUF,

3. Share of Profit of a partner

4. Gifts and Awards

5. Interest and Premium income of non-resident

6. Remuneration of a foreign trainee

7. Allowance or Perquisites received by govt. Employees working outside India

8. Income of a consultant

9. Death – cum – Retirement Gratuity

10. Awards and Rewards

11. Income of a local authority

12. Income of scheduled tribes

13. Income of Minor

14. Capital gain on transfer

15. Income of Mutual funds

16. Income of national funds, hospitals, Educational funds

17. Income of Provident funds 18. Income of Registered funds etc.

18. What are the **<u>incomes deemed to be received</u>** <u>or</u> **<u>types</u>** in India?

1.Profits and gains 2. Dividends 3. Perquisite 4. Special allowance or benefit 5. Any allowance 6. Any winnings 7. Any sum received under keyman insurance 8. Contributions received by a trust 9. Any capital gain taxable under sections 10. Value of any benefit or Perquisite granted to director

UNIT – II

Income from Salary

1. **Salary**

   Any remuneration received by an employee in consideration of services rendered to his employer is called salary. Salary includes monetary value of those benefits and facilities provided by the employer which are taxable.

2. **What is allowance?**

   An allowance is a cash payment to the employee on a regular basis in addition to basic salary to meet certain expenses required to be incurred by him in connection with duties of his office, or to compensate him for any expenditure which is owing to performance of his duty in particular circumstances or at a particular place.

3. **What is dearness allowance?**

   Dearness allowanced is also termed as additional dearness allowance or high cost of living allowance or interim relief. These living allowance or interim given by employer to the employees are compensation for rise in prices.

4. **What do you mean by pension?**

   Pension is a payment made by the employer after the retirement or death of employee as a reward for past service. It is normally paid as a periodical payment on monthly basis but certain employers may allow an employee to forgo a portion of pension in lieu of lump sum amount.

5. **Statutory provident fund**

   The statutory provident fund regulated by the provident funds act 1925. It applies to employees of the government semi, government organisation local bodies, Universities, to other educational institutions.

6. **Provident funds**

   Provident fund means to provide for the future of the employee fund is credited by any amount deducted from the salary of the employee every month at a certain rate and also makes own contribution to this fund.

7. **Perquisites?**

   Perquisite means any benefit attached to an office or position in addition to salary or wages. It may be given inn kind it should be capable to being measured in terms of money.

8. **Leave salary**

   Employees are entitled to various types of leave. The leave generally can be taken (casual leave / medical leave) or it lapses. Earned leave is a kind of leave which an employee is said to have earned every year after working for some time. The leave can either be availed every year, or get encashment for it. If leave not availed or enchased, it is allowed to be carried forward.

9. Leave encashment

The leave is earned leave. It is the leave standing to the credit of an employee is not availed within a year it may be encashment. The accumulated leave may be such leave encased at the time of retirement or during services.

10. Gratuity

Gratuity is the payment made by the employer to an employee in appreciation of past services rendered by the employee. It is received by the employee on his retirement. Gratuity is exempted up to certain limit depending upon the category of employee. For the purpose of exemption, employees are divided into 3 categories.

11. What are kinds/types of Provident funds?

1. Statutory Provident fund
2. Recognized Provident fund
3. Unrecognized Provident fund
4. Public Provident fund

UNIT – III

Income from House Property

1. What is Income from House Property

Under the income tax Act 1961, the basis of charge of income tax in respect of income from house property is based on three essential conditions.

- The property must consist of buildings and lands appurtenant thereto.
- Assessee is the owner of the property.
- Assessee does not use the property for purposes of own business of or profession

2. What is annual rental value?

Annual value of house property which is defined as –"the sum for which the property might reasonably be expected to be let from year to year"

- The property must consist of buildings and lands appurtenant thereto.
- Assessee is the owner of the property.
- Assessee does not use the property for purpose of own business or profession.

3. Write the meaning of deductions.

From the net annual value the following two deductions are available under sec.24.

- Standard deduction 30% of NAV

- Interest on borrowed capital

4. **Standard Rent.**

   The rent fixed under the Rent Control Act, where so ever applicable, is called Standard Rent. If a property is covered under rent control Act, the Standard Rent is applicable.

5. **Actual rent**

   When assessee receives amount for rent previous year. That amount is called actual rent of house property.

6. **Gross annual value(GAV)**

   Gross annual value of the property is deemed to be the sum for which the property might reasonably be expected to be let from year to year. A national income to be derived from on a reasonable basis

7. **Net annual value(NAV)**

   Net annual value of the property is to be calculated Gross annual value less municipal taxes that is find net annual value

8. **Municipal rental value? (MRV)**

   In order to levy local taxes the municipal corporation / committee (i.e) local authority conducts a periodical survey of the house properties in their local limits. Based on the survey the rental valued are fixed is called municipal rental value(MRV)

9. **Fair rental value?(FRV)**

   Fair rental value in which a house property can fetch based on rent prevailing for similar type of accommodation in same locality.

10. **Municipal Taxes?**

    Taxes paid by the owner, actual payment during the year and municipal or local taxes. u/s 24 from net annual value standard deduction, interest on borrowed capital. Municipal taxes levied b local authority in respect or house property is reduced for G.A.V to arrive at the net annual value.

11. **Unrealized Rent?**

    As per explanation (issue as notification) to sec. 23(1) the unrealised rent reduced from actual rent receivable in the previous year.

12. **Loss from house property**

    Gross Annual Value will not be Nil. However, if the Deductions claimed are more than the Gross Annual Value, this would again result a Loss arising under the head House Property.

13. **When municipal tax can be deducted from GAV?**

    If Find out the Net annual value. Municipal tax can be deducted from GAV

14. What are the types of Rental value?

Municipal Rental value(MRV), Fair Rental value(FRV), Actual rent, Standard rent

15. What are the items **exempted incomes from house property**?

- Income from farm house
- Annual value of any one palace of ex- indian ruler
- Income from house property owned by :
  - Local authority
  - Development authority
  - Scientific research association
  - Trade union
  - Charitable trust
  - Political party
- Income of a statutory authority from letting of goods or warehouses
- Property income of an educational institution or hospital
- One - self- occupied property
- Property used for own business or Profession

16. Deductions allowed from House Property

1. Municipal taxes

   Taxes paid by the owner

   Actual payment during the year

   Municipal / local taxes

2. Deduction under sec. 24 from Net annual value

   Standard deduction of nav

   Interest on borrowed capital

UNIT – IV

Income from Business & Profession

1. Business

Business have been defined in sec.2 (13) of the income tax act. It including any trade commerce, manufacture or any adventure or concern in the nature of trade commerce or manufacture.

2. Profession

A profession is a vocation founded upon specialized educational training, the purpose of which is to supply objective counsel and service to others, or a direct and definite compensation, wholly apart from expectation of other business gain. For example the work of lawyer, doctor and auditor.

3. **Valuation of stock**

   The valuation of stock in hand is done on the basis of cost or market price, whichever is lower. Some people value stock on the basis of cost price only. The assessee is free to adopt any method, but once a method is adopted it has to be adhered to from year to year.

4. Expenses disallowed in computation of business income?
   - Any drawings and personal expenses
   - Expenses as capital expenditure
   - Any charity, donations and presents
   - Any provisions and reserves against losses.
   - Salary and interest payable outside India.

5. What are the charging – provisions u/s 28 under the head "profits and Gains of Business or Profession"?
   a. Profits and gains,
   b. Compensation
      i. Termination
      ii. Modification
   c. Income of any Trade
   d. Profit on sale of license
   e. Cash assistance
   f. Value of any benefit or perquisite
   g. Salary, bonus, commission
   h. Amount received under a Keyman Insurance Policy
   i. Profits earned from an illegal business
   j. Any sum received on account of any capital asset.
   k. Income from speculation
   m. Profit and gains of managing agency

6. Explain methods of valuation of stock.
   - Under valuation
   - Over valuation

7. Explain the treatment of scientific Research Expenditure and Family Planning Expenditure.

a. Expenditure an Research carried by the assesse
    1. Revenue expenditure incurred by assesse
    2. Capital expenditure incurred by assesse
    3. Expenditure on in – house research development
b. Contribution to Out siders
    1. Contribution to an approved scientific research association
    2. Payment to national laboratory

8. Deduction as per section 36 under incomes from business or Profession.
    - Insurance premium
    - Insurance premium paid by a federal milk co-operative society
    - Premium for employees health insurance
    - Bonus or commission to employees
    - Interest borrowed capital
    - Deduction to be allowed on payment basis

UNIT – V

Capital Gains & Income from other sources

1. **Capital assets?**

   Capital asset means property of any kind (fixed, circulating, movable, immovable, tangible or intangible) whether or not connected with business or profession.

2. **Long term capital gain?**

   Long term capital gain is computed by deducting from the full value of consideration arising out of transfer of a long term capital asset the following items: Expenditure and indexed cost.

3. **Short term capital gain?**

   Short term capital gains shall be computed by deducting from the full value of consideration accruing as a result of transfer of the capital asset, the following items:
    - Expenditure incurred wholly and exclusively in connection with such transfer.
    - The cost of acquisition of the asset and the cost of any improvement thereto

4. **What is meant by interest on securities?**

   Interest on securities shall be chargeable to tax under the head Income from other sources' if securities are held as investment and it is taxable under the head 'business or profession.
    - Interest on notified securities is exempted

- Interest on other government securities is income from other sources.
- Income from tax free and less tax non government.

5. **What do you mean by self-generated Asset?**

   It refers to an asset which does not cost anything to the assessee in monetary terms relating to its acquisition or creation.

6. **Types of capital assets.**

   Short term capital gains and long term capital gains.

7. **Casual incomes.**

   Any receipt which is of a casual and non-recurring nature is called casual income.

   Casual incomes include winnings from lotteries, crossword puzzles, horse races, card games etc.

8. **Cost of acquisition:**

   Cost of acquisition of an asset is the amount paid by the assessee to acquire it. All the capital expenses paid for acquiring the title to the property are termed as the cost of acquisition

9. **Indexed cost of acquisition:**

   An amount bears to the same proportion as cost inflation indexes for the year.

10. Types of capital gains

    Short term capital gains and long term capital gains.

11. Explain deduction u/s 80-C and 80-G

    <u>U/s 80-C</u>

    1. Computation of gross qualifying amount
       a. Life insurance premium, b. non-commutable deferred annuity c. contribution to provident fund d. Repayment of housing loan
    2. Computation of Net qualifying amount

       Gross qualifying as total investment or Rs. 100000 whichever is lower
    3. Amount of deduction

    <u>U/s 80-G</u>

    a. Sum of money b. specified Institutions c. Any tax payer d. Proof of Payment

    e. Gross qualifying amount includes-

    1. Donations of sum of money made to the following funds or eligible for 100% deduction,
    2. Donations made to the following funds / institution are deductible upto 50% and
    3. Restricted donations.

12. Examples of income from other sources

a. Fees or commission, b. Annuity c. Directors fees, d. Rent of land e. Other interest

f. Royalty income g. Family pension h. Directors commission